

## **RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA**

### **INVESTMENT POLICY STATEMENT**

#### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.**

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. The most recent Plan actuarial valuation, July 1, 2001, shows 85 active participants, 5 inactive vested participants and 76 pensioners and beneficiaries. There are also 129 pensioners receiving payments from annuities purchased with the Travelers Insurance Company. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The Executive Director of North Dakota Public Employees Retirement System is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Currently the Plan is fully funded and does not have an employer normal cost. Job Service North Dakota as the employer contributes 4% of the active participants salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

The Plan has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8%.

#### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The Plan has entered into a contract for investment services with the SIB. The assets are to be invested in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probably safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Plan's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

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### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index (CPI), by 3.0 percent per year (based on current actuarial assumptions of 8% return and 5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plans' surplus.

### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Plan's assets shall be invested in asset classes as indicated in Section 5 of this investment policy statement. For evaluation purposes, the following performance targets will apply to each appropriate asset class:

Domestic Large Cap Equity -- S&P 500 Stock Index  
Domestic Small Cap Equity -- Russell 2000 Stock Index  
International Equity -- MSCI 50% Hedged EAFE Stock Index  
Domestic Fixed Income -- Lehman Bros. Aggregate Bond Index  
International Fixed Income -- Salomon Bros. World Government Non-US Bond Index

### **5. POLICY AND GUIDELINES.**

The Plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. Asset allocation is based upon the asset/liability study completed by Buck Consultants in May 2002. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Large Cap Equity -- 30%  
Domestic Small Cap Equity -- 5%  
International Equity -- 5%  
Domestic Fixed Income -- 55%  
International Fixed Income -- 5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that the undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

## 6. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Plan Administrator periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

--Changes in asset class portfolio structures, tactical approaches and market values;

--All material legal or legislative proceedings affecting the SIB. All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to review by the Plan Administrator at such frequency, as he/she deems appropriate. Any material changes will be reported to the SIB in writing.

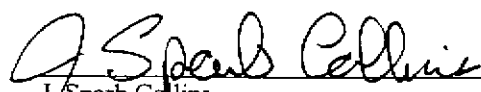
## 7. TRANSITION.

As a result of the change from prior asset allocations to the new asset allocations indicated in Section 5 above, a transition is required. The following table sets out the timing of reallocation:

Asset Class	Current	8/1/02	11/1/02	2/1/03	5/1/03	8/1/03
Domestic Large Cap Equity	35%	34%	33%	32%	31%	30%
Domestic Small Cap Equity	10%	9%	8%	7%	6%	5%
International Equity	5%	5%	5%	5%	5%	5%
Domestic Fixed Income	50%	51%	52%	53%	54%	55%
International Fixed Income	0%	1%	2%	3%	4%	5%

Assets will be transferred as required at each of the dates above, resulting in the ultimate asset allocation at August 1, 2003.

Date 8/12/03

  
 J. Sparb Collins  
 Executive Director  
 North Dakota Public Employees Retirement System

Date 8-12-03

  
 Steve Cochran, CFA  
 Executive Director  
 North Dakota Retirement & Investment Office

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